The Global & Australian Economic Outlook in Brief: December 2023

NAB Group Economics

Global Economic Outlook

Improved inflation trends have boosted hopes of monetary policy easing in 2024, with advanced economy prices in October rising at their slowest pace since July 2021. There was a wide divergence in growth among major advanced economies in Q3 – with strength in the US in contrast to relative weakness in other countries – however this gap is expected to narrow as the US slows in Q4. Among emerging markets, India and Russia grew faster than anticipated, however there is scepticism regarding the strength of both results. We have revised our forecasts for global growth marginally higher this month, largely reflecting the stronger reported growth in India. In 2023, the global economy is expected to expand by 3.1% (previously 3.0%), before slowing to 2.7% in 2024 (previously 2.6%). We continue to expect a modest recovery to 3.0% in 2025, however this outlook remains below the long term average of 3.4%.

- Global **consumer price inflation** continued to ease in October, with prices increasing by 5.3% yoy – its slowest rate of growth since November 2021. Inflation remains comparatively elevated in emerging markets – with prices up by 6.6% yoy (from 6.9% yoy in September) – albeit there is considerable divergence within this grouping – with extremely high rates in Türkiye, Egypt, Nigeria and Pakistan (largely reflecting idiosyncratic factors) contrasting with deflation in China and Thailand.
- **Inflation trends among the major advanced** economies have been less divergent – with prices growing by 3.5% yoy in October (from 4.2% yoy previously), driven by a rapid easing in Europe.
- The more recent retreat in inflation and commentary from **central bankers** has substantially shifted expectations, notwithstanding some push back by the BoE and ECB at their most recent meetings. At the time of writing, between five and six policy rate cuts by both the US Fed and European Central Bank (ECB) were fully priced for 2024 (which is more aggressive than our expectation of 100bp of easing by both the Fed and ECB over 2024).
- As the shift in policy rate expectations gathered pace, so too did rallies in **global equity markets**. This was most evident in the United States – by mid-December, the S&P 500 had climbed by over 14% from its late October lows.
- **Commodity prices** – as measured by the S&P GSCI – have continued to trend lower over the same period. The key driver of this downturn has been energy prices, particularly oil. Despite efforts by OPEC+ to constrain production, non-OPEC+ output has risen, particularly in the US, driving benchmark West Texas Intermediate (WTI) temporarily below US$70 a barrel for the first time since June.
- Revised data suggest that the divergence in growth across the **major advanced economies** for Q3 was wider than previously thought. Previous estimates for Q3 GDP have been revised up in the US (from 4.9% q/q annualised growth to 5.2%) while Japan was revised down (to -0.7% q/q from -0.5%) and our expectation of modest growth in Canada was not realised as GDP declined 0.3% q/q.
- The divergence looks set to narrow in Q4. Early data for the quarter suggests that US growth is set to slow, even though consumption remains solid and will get some support from the fall in gasoline prices.
- Growth in **India and Russia** was stronger than expected in Q3 – albeit there was some scepticism around both outcomes, given anomalies in India's disaggregated data and the propaganda value of Russia's outcome).
- Reflecting the stronger than anticipated growth in India, we have revised up our expectation for **global economic growth** to 3.1% in 2023 (from 3.0%). We continue to forecast a slowdown in 2024 to 2.7% (up from 2.6% previously). Outside the extreme outliers of the global financial crisis and the initial wave of COVID-19, this would be the weakest rate of growth since 2001. We expect a modest recovery to 3.0% in 2025, however our whole outlook sees growth below its long-term average of 3.4%.
- The path of inflation remains the **key uncertainty** to our outlook – and with it the timing and scale of the eventual easing of monetary policy. Beyond this, geopolitical factors could continue to influence economic activity – including conflict in Russia-Ukraine and the Middle East, tensions between the US and China, and uncertainty around the outcome of the 2024 US Presidential Election.

For more detail on the global outlook, please see the Forward View – Global, released yesterday.

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Australian Economic Outlook

For Australia, recent data on GDP, CPI and the labour market have confirmed that the economy is growing at a well-below trend pace, inflation pressure is continuing to moderate and the labour market has remained healthy. Our forecasts remain broadly unchanged, seeing below trend GDP growth of 1.4% and 1.7% over 2023 and 2024, respectively with soft consumption growth the key dynamic. While employment growth has been strong, some of the pressure in the labour market has begun to ease and we expect further easing as the economy slows. The moderation in inflation is expected to continue with trimmed-mean CPI ending 2024 around 4.5% before easing to 3.3% by end 2024. For now, we continue to pencil in one further RBA rate rise for February but the data flow will be important, particularly the Q4 CPI due in January which may come in slightly below the RBA's forecast.

- **The unemployment rate rose slightly in November to 3.9% as the participation rate rose a further 0.2ppts to a new record high of 67.2%.** Employment rose 61k in November, backing up a slightly revised 43k increase the month prior – though hours worked were fairly steady in the month. Net migration topped 518k over the past year, reflecting both high arrivals and low departures, but so far the labour market is absorbing the rebound in population. As the economy slows however, we expect the unemployment rate to reach around 4.5% by end-2024. Wage growth measures continued to strengthen in Q3, in line with WPI, while productivity also picked up a little.
- **Real household consumption was flat in Q3 with annual growth slowing to just 0.4% y/y.** Measured consumption was significantly impacted by government subsidies in energy and childcare, which saw essential consumption fall 0.4% q/q. This was offset by a 0.7% q/q rise in discretionary consumption as vehicle sales rose. High inflation, income taxes and interest rates continue to weigh on household cash flows, with nominal disposable income growing just 0.1% q/q (1% y/y) and real income continuing to fall. The average savings rate declined to 1.1%, well below the pre-COVID average. Looking through some pre-Christmas volatility in retail data, consumption growth has likely remained subdued in Q4 but should improve as real income growth turns positive – most likely in the second half of 2024.
- **House price growth slowed further in November, though rents growth remains strong as vacancy rates across the capital cities hover around historic lows.** The CoreLogic 8-capital city dwelling price index rose by 0.6% in November and is now 8.2% y/y, while prices in regional areas have seen a more muted cycle and are around 40% higher than pre-pandemic. Though capital city rents marginally slowed in Q3, the pace of increase accelerated in November, with rents across the capital cities rising 0.7% m/m and 8.1% y/y, while vacancy rates have hovered near 1% since mid-2022. Demand for housing is likely to remain strong in the near term with population growth still strong. On the supply side, some 52k dwellings were estimated to have been added to the dwelling stock in September - up from 32k in the June quarter. However, the current run rate of approvals implies an ongoing pull-back in annual completions and ongoing weakness in dwelling investment as the existing pipeline of work is completed.
- **Business investment rose modestly in Q3 while business conditions eased in November.** On an underlying basis, business investment rose 0.4% q/q in Q3 and while this was the equal lowest quarterly growth rate since Q4 2021, business investment was still up 7.4% over the year. Investment growth in Q3 was driven by the mining sector (up 9.6% q/q), while non-mining investment declined 1.0%. The strongest growth was recorded in new engineering construction (2.3% q/q) and mining exploration (3.8%), while machinery & equipment only managed a modest increase and new building investment fell 1.5%. More recently, business conditions in the NAB Monthly Business Survey eased 4pts in November to +9 index points. Confidence saw a second consecutive decline to -9 index points - its lowest level since 2012 (outside of the COVID period).
- **Net exports fell in Q3, detracting 0.6ppts from quarterly GDP growth**. Export volumes fell 0.7% q/q, driven by a 4.7% fall in resource exports – although this was partly offset by a rise in inventories with mining inventories up 8.9% in the quarter. Rural export volumes jumped 12% q/q and travel services (tourism, students) were up 4.4% q/q. Goods imports also grew, but only by a modest 0.5% q/q, with capital goods rebounding from last quarter's fall (3.4%).
- **The monthly CPI indicator surprised slightly to the downside in October, with annual inflation falling to 4.9% y/y.** Goods prices area easing and will likely continue to see the benefit of easing goods demand, lower freight costs and easing supply issues. The trend in services inflation will remain key as services prices have tracked more strongly than goods over recent quarters and are typically stickier (in a levels sense). The November CPI (published 10th January) will provide more significant updates to key services components. We see a 0.9% q/q print for Q4 overall, though the impact of subsidies in the quarter will mask the true underlying pace of inflation. Underlying inflation should moderate to 3.25% by end 2024 (RBA: 3.3%) and 2.8% (RBA: 2.9%) by end 2025.
- **As was widely expected, the RBA left the cash rate on hold in December following the 13th increase of the current cycle to 4.35% in November.** The post meeting statement suggested that the RBA continues to tread carefully despite the latest set of staff forecasts implying a further increase in the cash rate. We continue to pencil in one final hike in February, taking the cash rate to a peak of 4.6% and staying there until late 2024.
- **The AUD/USD strengthened over the month, currently trading around US67.2c and is now up around 7% from its lows (high US62c range) in late October.** We continue to see the Aussie ending the year at around US66c before tracking higher over 2024 – ending 2024 at around US73c.

For more detail on the Australian outlook, please see the Forward View – Australia, released on Tuesday.

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